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CENTRAL INTELLIGENCE GROUP

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only two steel bridges and one tunnel, which were blown up. The original section of 464 kilometers from Hekow to Kuming was built by the French in 1910. The section from Kuming to Chanyi was constructed during the war with materials from the dismantled section. The Morrison-Knudsen Report gives fairly complete information on the condition of the portion of the railway in Chinese territory. It provides no information on the section of the road in Indo-China.)

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3. Szechuan Railway

This railway, between Chungking and Chengtu, was begun before the war by a French syndicate. All the preliminary engineering work was completed, one half the tunnels and grading were finished, and an unstated amount of ballast had been laid down. However, less than ten percent of the actual construction of the road had been finished when operations were suspended because of the war. Negotiations for its completion were initiated not long ago between the French and the Chinese. It is estimated that the construction required will cost in French francs 1,800,000,000. The Chinese Government will issue fifteen-year notes for this amount, with proper provisions for amortization. These notes will then be guaranteed by the French Government and certain large French banks, and consequently will be rediscountable at the Bank of France. The banks concerned are the Banque de l'Indochine, Banque Franco-Chinoise, and the Banque de Paris et des Pays Bas. (Note: It is not known whether Lazard Freres, which was in the original syndicate, still has an interest.) The notes will therefore be acceptable as payment to the French suppliers of machinery and equipment. The method of paying the French technicians who will be employed is not yet determined. In view of the Chinese Government's past record of default, this might be considered a risky financial venture for the French Government, especially at a time when French finances are shaky. On the other hand it cannot involve a realized loss to the French in less than about five years, at which time it is hoped that French finances will be in better shape. It is believed that the real reasons the French Government is backing this scheme are (a) to give an impetus to French heavy machinery business and (b) to reestablish a foothold for French capital and technical ability in China. Negotiations between the French and Chinese had nearly reached a satisfactory conclusion, but have recently been suspended. It is believed that the reason for this is the current Chinese prejudice against foreign ownership of assets in China, and possibly a demand for "squeeze" by Chinese officials. It is thought, however, that the French will succeed in reaching an agreement, probably using as an excuse the "moral obligation" resulting from the commitment made as part of the agreement on the withdrawal of Chinese troops from Indo-China (see paragraph 1).

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